Massachusetts Electric
A National Grid Company

Amy G. Rabinowitz
Counsel

July 7, 2004

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: D.T.E. 04-51

Dear Secretary Cottrell:

I am enclosing Massachusetts Electric Company's responses to the Department's First Set of Information Requests.

Thank you very much for your time and attention to this matter.

Very truly yours,

Amy G Rabinowitz

Amy G. Rabinowitz

cc Jeanne Voveris, Hearing Officer
Paul Osborne
James Powell
Joseph Rogers

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DTE 1-1

Request:

Refer to Exhibit MEC-1, at 4. Please indicate what entities would qualify as remarketing agents and those who would be likely to fill this role.

Response:

Massachusetts Electric's affiliate companies, New England Power Company and Niagara Mohawk Power Corporation, currently employ several firms to serve as remarketing agents/broker dealers for their tax exempt bond programs. These firms are Citigroup, Bank One, JP Morgan, Lehman Bros., and Morgan Stanley. The selections of these firms were made on the basis of their experience with serving in this role for other companies' tax exempt debt programs, their performance on existing National Grid USA companies tax exempt programs, and other business relationships that exist between National Grid USA companies and these firms. We continuously review the performance of these agents.

The company has selected Lehman Bros. as the remarketing agent/broker dealer for this transaction.

Prepared by or under the supervision of: Robert G. Seega

DTE 1-2

Request:

Refer to Exhibit MEC-1, at 6. Please provide the citation to the applicable sections of the federal tax law and a copy of the relevant text referred to in the following statement: "the refunding tax-exempt bonds may have a maturity longer than the remaining term of the outstanding tax-exempt bonds, subject to certain requirements established under the federal tax law concerning the expected life of the pollution control facilities."

Response:

Section 147(b) of the Internal Revenue Code provides that the average maturity of certain private activity bonds, including the New MDFA Bonds, may not exceed 120% of the average reasonably expected economic life of the facilities financed with such bonds. This rule is applicable to both "new-money" bonds and "refunding" bonds. Where the average maturity of refunding bonds is greater than the bonds being refunded, which is the case proposed here, Internal Revenue Code §147(f)(2)(d) provides that refunding bonds need to meet the "public approval" requirements set forth in Code §147 – the so-called "TEFRA" requirements.

Prepared by or under the supervision of: Robert G. Seega

DTE 1-3

Request:

Refer to Exhibit MEC-1, at 10. Please discuss under what circumstances the new Massachusetts Development Finance Agency bonds could be considered taxable securities.

Response:

To the extent the qualifying facilities, that were financed with Massachusetts Development Finance Agency bonds, were to be used for a different purpose other than one which qualifies for tax exempt financing, those bonds would become taxable securities.

Prepared by or under the supervision of: Robert G. Seega

DTE 1-4

Request:

Refer to Exhibit MEC-1, at 4-5. Please indicate who the trustee for the new Massachusetts Development Finance Agency bonds will be.

Response:

The company has not determined at this point who the Trustee will be for the new bonds.

Prepared by or under the supervision of: Robert G. Seega

DTE 1-5

Request:

Refer to Exhibit RGS-2. Please provide a similar schedule comparing net utility plant to total capitalization incorporating the following revisions:

(1) the elimination of construction work in progress on line 4;

(2) the elimination of retained earnings on line 23;

(3) the elimination of accumulated other comprehensive income (loss) on line 24; and

(4) the inclusion of long-term debt due within one year on line 29.

Response:

	($000)		
	Actual	Adjustments (incl. those identified above)	Adjusted
Utility Plant	$2,314,164		$2,314,164
Less: accumulated provisions for depreciation	880,235		880,235
	1,433,929		1,433,929
Construction work in progress	23,475	(23,475)	0
Net Utility Plant	$1,457,404		$1,433,929
Capitalization			
Common Stock	$59,953		$59,953
Other paid in capital	1,508,991	(1,023,272)	485,719
Retained Earnings	184,588	(184,588)	0
Accumulated other comprehensive loss	(113,175)	113,175	0
Total Common Equity	$1,640,357		$545,672
Cumulative Preferred Stock	$4,727		4,727
Long-term debt (incl. long-term debt due within 1 yr.)	252,183	10,000	262,183
Total Capitalization	$1,897,267		$812,582

DTE 1-5 (cont'd)

Adjusted Net Utility Plant	$1,433,929
Adjusted Total Capitalization	812,582
Excess of Net Utility Plant over Total Capitalization	$621,347

Please note that an additional adjustment was made by deleting the goodwill amount from other paid in capital.

Prepared by or under the supervision of: Robert G. Seega

DTE 1-6

Request:

Refer to Exhibit MEC-1, at 16. Please support, including any relevant Department precedent, the statement that "the net utility plant test is not applicable to this refinancing."

Response:

The Company is requesting authority from the Department to refinance its currently outstanding $40M of 5 7/8% tax exempt debt. This debt will be retired and new debt in the amount of $40M will be created and will result in no new incremental debt to the Company.

The net utility plant test is used to demonstrate the Company's ability to issue new additional debt. We are not seeking authority to increase the amount of debt outstanding; therefore, we do not believe it is applicable.

Prepared by or under the supervision of: Robert G. Seega

DTE 1-7

Request:

Refer to Exhibit MEC-1, at 7, 17. Please describe the "requirements of bond counsel for MDFA." What steps is the Company is currently undertaking to satisfy the requirements of bond counsel? What is the anticipated date of any authorization by the Massachusetts Development Finance Agency?

Response:

In order to extend the final maturity of the New MDFA Bonds, bond counsel requires some evidence from the Company as to the reasonably expected useful life of the facilities originally financed. The Company has provided bond counsel with an engineering report that described the facilities and their estimated remaining useful life as of May, 1997, which is satisfactory to support a final maturity date for the bonds of November, 2014.

The Massachusetts Development Finance Agency has already authorized the issuance of the New MDFA Bonds. It did so on November 13, 2003, subject to all documentation being in satisfactory form. The bonds will not be issued unless and until the Company receives approval for the financing from the Department and receives the TEFRA authorization as discussed in response to DTE 1-8.

Prepared by or under the supervision of: Robert G. Seega

DTE 1-8

Request:

Refer to Exhibit MEC-1, at 7, 17. What steps has the Company taken to obtain an approval from the TEFRA board for an extension of maturity of the MDFA bonds? As part of this response, provide a description of the TEFRA board, including its membership and duties, the approval process, as well as the anticipated date of any TEFRA action on this request.

Response:

Section 147(f) of the Internal Revenue Code provides that certain private activity bonds must meet the public approval requirements set forth therein. These provisions were originally added to the Internal Revenue Code by the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA"). Under these rules an issue of bonds must be approved by an applicable elected representative of the governmental unit issuing the bonds after a public hearing following reasonable public notice. In the case of bonds issued by MDFA, the Governor is the "applicable elected representative." Under Treas. Reg. §5f.103-2(g)(4) a "public hearing" may be held by the issuing governmental unit in any reasonable manner affording interested individuals the opportunity to express their views about the proposed bond issue. The actual procedures are left to the discretion of the local issuers.

The TEFRA hearing will be held by the staff of MDFA, not a special "TEFRA board." The hearing will be scheduled with MDFA and notice of the hearing published at least two weeks in advance. MDFA will obtain the TEFRA approval of the Governor following the hearing and prior to the issuance of the bonds.

Prepared by or under the supervision of: Robert G. Seega

DTE 1-9

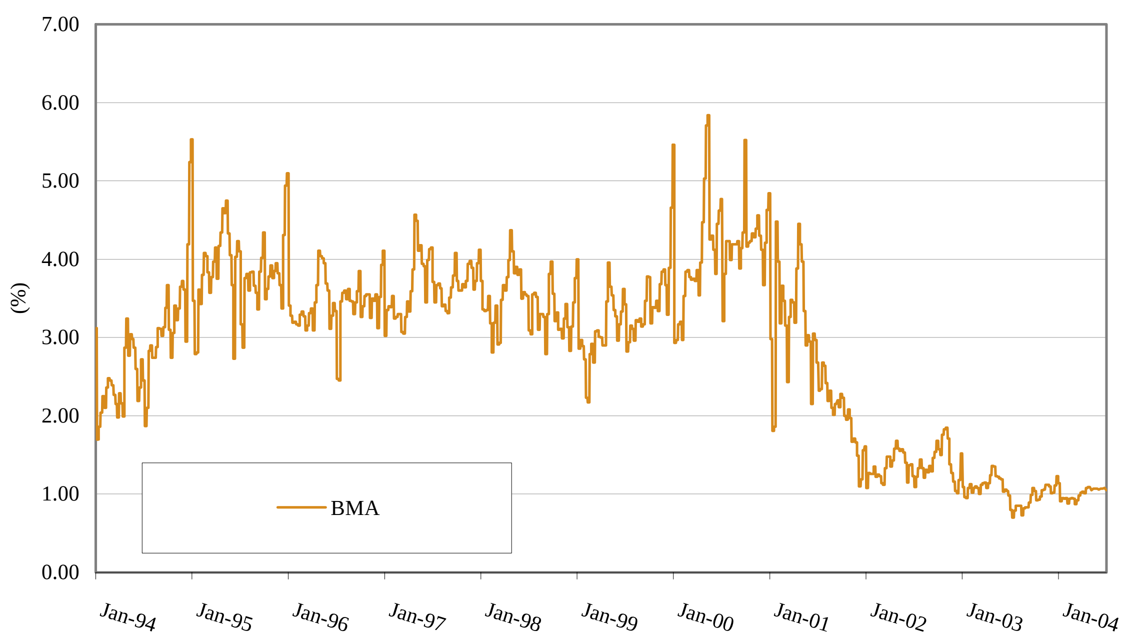
Request:

Refer to Exhibit MEC-1, at 7-8. Please provide the "comparable historic rates" in the "previous five year period" that the Company has relied on in concluding that variable rates will be approximately 3.5 percent over the next five years.

Response:

We have relied on the historic rates of the Bond Market Association Municipal Swap Index in estimating the average cost of tax-exempt variable rate obligations over the next five years. Commonly called the BMA Index, it is produced by the Bond Market Association and it represents a 7-day high grade market index for tax-exempt variable rate demand obligations. The BMA Index has averaged 2.87% since 1994 (ten-year average) and 2.35% since 1999 (five-year average). Below is a graph depicting the BMA Index since 1994 detailing the five and ten-year averages and the all-in cost estimate for the Company's variable rate obligations assuming 52 basis points annualized cost for bond insurance and ongoing remarketing fees.

BMA Historical Rates (1994 to Present)



Historical Averages

Average	BMA	All-In Cost Estimate
1994 – Present	2.87%	3.39%
1999 – Present	2.35%	2.87%

Prepared by or under the supervision of: Robert G. Seega

DTE 1-10

Request:

Refer to Exhibit MEC-1, at 7-8. Please describe the basis on which the Company has concluded that variable rates will be in the area of 3.5 percent over then next five years.

Response:

We used the historical data of the BMA Index as discussed in our response to DTE 1-9 and also took into consideration the forward implied BMA rates over the next five years. As the chart illustrates below, the tax-exempt bond market currently expects short-term interest rates to rise over the next five years and average 3.12% during this period.

Years*	**Implied Forward Yearly Average BMA Rate**
Year 1	1.75%
Year 2	2.77%
Year 3	3.25%
Year 4	3.77%
Year 5	4.07%

* Years are July to June to encompass five complete years from now

Prepared by or under the supervision of: Robert G. Seega

DTE 1-11

Request:

Please provide a copy of the Company's Form 10-Q for the period ending December 31, 2003.

Response:

The Company does not prepare Form 10-Q's and is attaching a copy of its most recent Annual Report.

Prepared by or under the supervision of: Robert G. Seega

Annual Report 2004

Massachusetts Electric

A National Grid Company

Report of Independent Auditors

To the Stockholders and Board of Directors of
Massachusetts Electric Company, Northborough, Massachusetts:

In our opinion, the accompanying balance sheets and the related statements of income, of comprehensive income (loss), of retained earnings and of cash flows present fairly, in all material respects, the financial position of Massachusetts Electric Company, a wholly owned subsidiary of National Grid USA, at March 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Boston, Massachusetts
May 6, 2004

Massachusetts Electric Company

Statements of Income

Year ended March 31 (In thousands)	2004	2003
Operating revenue	**$1,993,505**	$1,734,576
Operating expenses:		
Purchased electric energy:		
Non-affiliates	**1,064,858**	807,090
Contract termination charges from New England Power Company, an affiliate	**188,849**	189,173
Other operation	**476,882**	400,225
Maintenance	**49,789**	49,898
Depreciation	**90,229**	86,285
Taxes, other than income taxes (Note J)	**38,083**	39,089
Income taxes (Note E)	**23,942**	52,873
Total operating expenses	**1,932,632**	1,624,633
Operating income	**60,873**	109,943
Other expense:		
Other expense, net	**(658)**	(1,312)
Operating and other income	**60,215**	108,631
Interest:		
Interest on long-term debt	**20,081**	24,973
Other interest	**5,376**	5,780
Total interest	**25,457**	30,753
Net income	**$ 34,758**	$ 77,878

Statements of Comprehensive Income (Loss)

Year ended March 31 (In thousands)	2004	2003
Net income	**$ 34,758**	$ 77,878
Other comprehensive income (loss):		
Unrealized gains (losses) on securities, net of taxes of $131 and ($53), respectively	**243**	(98)
Change in additional minimum pension liability, net of taxes of $19,386 and ($69,553), respectively	**28,876**	(152,728)
Comprehensive income (loss)	**$ 63,877**	$ (74,948)

Statements of Retained Earnings

Year ended March 31 (In thousands)	2004	2003
Retained earnings at beginning of year	**$ 169,472**	$ 92,182
Net income	**34,758**	77,878
Dividends declared on cumulative preferred stock	**(312)**	(597)
Premium on redemption of preferred stock	**(189)**	9
Retained earnings at end of year	**$ 203,729**	$ 169,472

The accompanying notes are an integral part of these financial statements.

Massachusetts Electric Company

Balance Sheets

At March 31 (In thousands)	2004	2003
Assets		
Utility plant, at original cost	**$ 2,342,310**	$ 2,235,106
Less accumulated provisions for depreciation	**(781,484)**	(723,443)
	1,560,826	1,511,663
Construction work in progress	**34,942**	17,456
Net utility plant	**1,595,768**	1,529,119
Goodwill	**1,023,272**	1,023,272
Pension intangible	**5,296**	6,435
Current assets:		
Cash and cash equivalents	**8,115**	9,852
Accounts receivable:		
From electric energy services, including unbilled revenues (Note A-3)	**301,954**	272,139
Other (including $8,256 and $7,047 from affiliates)	**14,722**	7,814
Less reserves for doubtful accounts	**(12,296)**	(12,991)
Total accounts receivable	**304,380**	266,962
Materials and supplies, at average cost	**9,682**	9,896
Prepaid and other current assets	**1,963**	2,146
Deferred federal and state income taxes (Note E)	**-**	17,761
Total current assets	**324,140**	306,617
Regulatory assets (Note B)	**48,017**	47,260
Prepaid pension	**107,122**	125,079
Deferred charges and other assets	**20,170**	18,962
Total assets	**$ 3,123,785**	$ 3,056,744
Capitalization and Liabilities		
Capitalization:		
Common stock, par value $25 per share, authorized and outstanding 2,398,111 shares	**$ 59,953**	$ 59,953
Other paid-in capital	**1,508,991**	1,508,991
Retained earnings	**203,729**	169,472
Accumulated other comprehensive loss (Note K)	**(123,665)**	(152,784)
Total common equity	**1,649,008**	1,585,632
Cumulative preferred stock, par value $100 per share (Note G)	**4,727**	10,127
Long-term debt (Note H)	**213,209**	283,060
Total capitalization	**1,866,944**	1,878,819
Current liabilities:		
Long-term debt due within one year (Note H)	**39,000**	15,000
Short-term debt to affiliates (Note F)	**220,575**	133,150
Accounts payable (including $92,376 and $92,522 to affiliates)	**232,790**	244,443
Accrued liabilities:		
Taxes	**15,611**	31,521
Deferred federal and state income taxes (Note E)	**1,458**	-
Interest	**5,045**	5,520
Other accrued expenses (Note F)	**34,894**	38,038
Customer deposits	**4,069**	4,290
Dividends payable	**54**	149
Total current liabilities	**553,496**	472,111
Deferred federal and state income taxes (Note E)	**176,174**	153,396
Unamortized investment tax credits	**10,726**	12,010
Accrued pension and other post-retirement benefits	**47,283**	37,302
Additional minimum pension liability	**131,503**	180,863
Other reserves and deferred credits	**337,659**	322,243
Commitments and contingencies (Note C)		
Total capitalization and liabilities	**$ 3,123,785**	$ 3,056,744

The accompanying notes are an integral part of these financial statements.

Massachusetts Electric Company

Statements of Cash Flows

Year ended March 31 (In thousands)	**2004**	2003
Operating activities:		
Net income	**$ 34,758**	$ 77,878
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**90,229**	86,285
Deferred income taxes and investment tax credits, net	**22,919**	8,955
Allowance for borrowed funds used during construction	**(122)**	(194)
Changes in current operating assets and liabilities:		
(Increase) decrease in accounts receivable, net and unbilled revenues	**(37,418)**	54,415
Decrease (increase) in materials and supplies	**214**	(850)
Decrease in prepaid and other current assets	**183**	872
Decrease (increase) in prepaid pension	**17,957**	(4,488)
Increase in regulatory assets	**(757)**	(38,804)
Increase in deferred charges and other assets	**(1,734)**	(3,736)
(Decrease) increase in accounts payable - trade	**(11,653)**	16,773
Decrease in other current liabilities	**(19,750)**	(1,598)
Other, net	**15,160**	54,208
Net cash provided by operating activities	**$ 109,986**	$ 249,716
Investing activities:		
Plant expenditures, excluding allowance for funds used during construction	**$ (148,279)**	$ (132,974)
Proceeds received from sale of fixed assets	**202**	116
Other investing activities	**925**	2,310
Net cash used in investing activities	**$ (147,152)**	$ (130,548)
Financing activities:		
Dividends paid on preferred stock	**$ (407)**	$ (597)
Long-term debt – retirements	**(46,000)**	(70,000)
Preferred stock – retirements	**(5,400)**	(46)
Premium on redemption of preferred stock	**(189)**	9
Changes in short-term debt due to affiliates	**87,425**	(43,450)
Net cash provided by (used in) financing activities	**$ 35,429**	$ (114,084)
Net (decrease) increase in cash and cash equivalents	**$ (1,737)**	$ 5,084
Cash and cash equivalents at beginning of year	**9,852**	4,768
Cash and cash equivalents at end of year	**$ 8,115**	$ 9,852
Supplementary information:		
Interest paid, less amounts capitalized	**$ 22,835**	$ 29,081
Federal and state income taxes paid	**$ 16,043**	$ 11,521

The accompanying notes are an integral part of these financial statements.

Massachusetts Electric Company

Notes to Financial Statements

Note A - Significant Accounting Policies

1. Nature of Operations:
Massachusetts Electric Company (the Company) is a wholly owned subsidiary of National Grid USA (National Grid) operating in Massachusetts. The Company's business is the distribution of electricity at retail. Electric service is provided to approximately 1,217,000 customers in 171 cities and towns having a population of approximately 2,825,000 (2000 Census). The properties of the Company consist principally of substations and distribution lines interconnected with transmission and other facilities of New England Power Company (NEP), the Company's transmission affiliate. Pursuant to legislation enacted in Massachusetts and settlement agreements approved by state and federal regulators (Massachusetts Settlement), effective March 1, 1998, the Company amended its all-requirements contract with NEP, under which it had previously purchased all of its electric energy requirements. Under the Massachusetts Settlement, NEP recovers its above-market generation commitments through a contract termination charge (CTC), which the Company collects from its distribution customers.

2. System of Accounts:
The accounts of the Company are maintained in accordance with the Uniform System of Accounts prescribed by regulatory bodies having jurisdiction.

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of asset recovery and contingent liabilities as of the date of the balance sheets and revenues and expenses for the period. These estimates may differ from actual amounts if future circumstances cause a change in the assumptions used to calculate these estimates. In addition, certain reclassifications have been made to conform the prior year with the 2004 presentation.

3. Electric Utility Revenue:
Revenues are based on billing rates authorized by the Massachusetts Department of Telecommunications and Energy (MDTE). The Company follows the policy of accruing the estimated amount of base rate revenues for electricity delivered but not yet billed (unbilled revenues), to match costs and revenues more closely. During 2004 and 2003, the Company recorded revenues in an amount management believes to be recoverable pursuant to provisions of approved settlement agreements and the Massachusetts Electric Industry Restructuring Act. The Company normalizes the difference between revenue and expenses from energy conservation programs, standard offer/default service, transmission service, and CTCs.

4. Allowance for Funds Used During Construction (AFUDC):
The Company capitalizes AFUDC as part of construction costs. AFUDC represents an allowance for the cost of funds used to finance construction. AFUDC is capitalized in "Utility plant" with offsetting noncash credits to "Interest". This method is in accordance with an established rate-making practice under which a utility is permitted a return on, and the recovery of, prudently incurred capital costs through their ultimate inclusion in rate base and in the provision for depreciation. The composite AFUDC rates were 1.1 percent and 1.5 percent for the years ended March 31, 2004 and 2003, respectively.

5. Depreciation:
Depreciation is provided annually on a straight-line basis. Depreciation expense for the years ended March 31, 2004 and 2003 was approximately $90 million and $86 million, respectively. Depreciation expense as a percentage of weighted average depreciable property was 4.0 percent for the years ended March 31, 2004 and 2003.

6. Cash and Cash Equivalents:
The Company classifies short-term investments with a maturity of 90 days or less at time of purchase as cash and cash equivalents.

7. Utility Plant:
The cost of additions to utility plant and replacements of retirement units of property are capitalized. Costs include direct material, labor, overhead and AFUDC. Replacement of minor items of utility plant and the cost of current repairs and maintenance are charged to expense. Whenever utility plant is retired, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation.

8. Goodwill:
In accordance with Statement of Financial Accounting Standards (SFAS) No. 142 “Goodwill and Other Intangible Assets”, the Company reviews its goodwill annually for impairment and when events or circumstances indicate that the asset may be impaired. The Company utilized a discounted cash flow approach incorporating its most recent business plan forecasts in the performance of the annual goodwill impairment test. The result of the annual analysis determined that no adjustment to the goodwill carrying value was required.

9. Income Taxes:
Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (see Note E).

10. Additional Minimum Pension Liability:
SFAS No. 87 “Employers’ Accounting for Pensions” states that if a pension plan's accumulated benefit obligation (ABO) exceeds the fair value of plan assets, the employer shall recognize in the statement of financial position a liability that is at least equal to the unfunded ABO with an offsetting charge to a pension intangible, to the extent the plan has an unrecognized prior service cost, and to other comprehensive income. (see Note D and Note K).

11. New Accounting Standards:
In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, “Accounting for Asset Retirement Obligations” (FAS 143). FAS 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. FAS 143 is effective for fiscal years beginning after June 15, 2002. The Company adopted FAS 143 during the current fiscal year.

The Company does not have any material asset retirement obligations arising from legal obligations as defined under FAS 143. However, under the Company’s current and prior rate plans it has collected through rates an implied cost of removal for its plant assets. This cost of removal collected from customers differs from the FAS 143 definition of an asset retirement obligation in that these collections are for costs to remove an asset when it is no longer deemed usable (i.e. broken or obsolete) and not necessarily from a legal obligation.

The collection of cost of removal collected from customers has historically been embedded within accumulated depreciation (as these costs have charged over time through depreciation expense). With the adoption of FAS 143 the Company has reclassified the cost of removal collections to a regulatory liability account to more properly reflect the future usage of these collections. The Company estimates it has collected over time approximately $117 million and $109 million for cost of removal through March 31, 2004 and 2003, respectively.

In December 2003, the FASB revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (FAS 132-R). FAS 132-R retains the disclosure requirements contained in the original statement and adds new disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension and other defined benefit postretirement plans. The FAS 132-R is effective for fiscal years ending after December 15, 2003 and for interim periods beginning thereafter. The Company has adopted FAS 132-R during the current fiscal year. This standard does not change the measurement or recognition of the aforementioned plans and, as such, the adoption of this statement has not had any effect on the Company's financial position, results of operations, or cash flows.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51" (FIN 46). FIN 46 requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interest in the entity. Historically, entities have generally been consolidated by an enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity. The objectives of FIN 46 are to provide guidance on the identification of variable interest entities (VIEs) for which control is achieved through means other than a controlling financial interest, and how to determine which business enterprise, as the primary beneficiary, should consolidate the VIE. This new model for consolidation applies to an entity in which either (1) the entity lacks sufficient equity to absorb expected losses without additional subordinated financial support or (2) its at-risk equity holders as a group are not able to make decisions that have a significant impact on the success or failure of the entity's ongoing activities.

In December 2003, the FASB modified FIN 46 with FIN 46-R to make certain technical corrections to the standard and to address certain implementation issues. FIN 46, as originally issued, was effective immediately for VIEs created or acquired after January 31, 2003. FIN 46-R delayed the effective date of the interpretation to no later than March 31, 2004 (for calendar-year enterprises), except for special purpose entities for which the effective date was December 31, 2003. The adoption of FIN 46-R has not had a material impact on the Company's financial position, results of operations, or cash flows.

In January 2004, the FASB issued Staff Position No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act)" (FSP 106-1). FSP 106-1 is effective for annual fiscal periods ending after December 7, 2003. FSP 106-1 permits employers that sponsor postretirement benefit plans (plan sponsors) that provide prescription drug benefits to retirees to make a one-time election to defer accounting for any effects of the Act. FSP 106-1 requires all plan sponsors to provide certain disclosures, regardless of whether they choose to account or defer accounting. If deferral is elected, the deferral must remain in effect until the earlier of (1) the issuance of guidance by the FASB on how to account for the federal subsidy to be provided to plan sponsors under the Act or (2) the remeasurement of plan assets and obligations subsequent to January 31, 2004. The Company has decided not to make an election until further accounting guidance is issued by the FASB. The measurement of the accumulated postretirement benefit obligation and net postretirement benefit cost in the financial statements and accompanying notes do not reflect the effect of the Act on the Company's postretirement benefit plans.

12. Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other gains and losses affecting common equity that, under generally accepted accounting principles, are excluded from net income. For the Company, the components of accumulated other comprehensive income (loss) consist of unrealized gains and losses on marketable equity investments and additional minimum pension liability, net of taxes.

Massachusetts Electric Company

Notes to Financial Statements

Note B – Regulatory Environment and Accounting Implications

Rates for services rendered by the Company for the most part are subject to approval by the MDTE. In March 2000, the MDTE approved a long-term rate plan for the Company, which became effective on May 1, 2000. The plan reduced distribution rates by $10 million annually with such rates being frozen through February 2005. Under the plan, from March 2005 to the end of December 2009, distribution rates will be increased by $10 million and subsequently adjusted by the annual percentage change in an index comprised of the weighted average of distribution rates of similarly unbundled investor-owned utilities in New England, New York, New Jersey and Pennsylvania. Under this index mechanism, the Company has also agreed that its distribution rates will be capped at 90% of that regional average. Based on a predetermined formula, annual savings in the Company's cost of service that are achieved by 2009 will be calculated and shared equitably with customers from January 2010 until May 2020.

Because electric utility rates have historically been based on a utility's costs, electric utilities are subject to certain accounting standards that are not applicable to other business enterprises in general. The Company applies the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation", which requires regulated entities, in appropriate circumstances, to establish regulatory assets or liabilities, and thereby defer the income statement impact of certain charges or revenues because they are expected to be collected or refunded through future customer billings.

The components of regulatory assets (liabilities) are as follows:

At March 31 (In thousands)	**2004**	2003
Regulatory assets included in account receivable - other:		
Rate adjustment mechanisms	**$ 105,448**	$ 61,644
Regulatory liabilities included in other accrued expenses:		
Rate adjustment mechanisms	**(10,201)**	(19,625)
Total net regulatory asset current	**95,247**	42,019
Regulatory assets:		
Unamortized losses on reacquired debt	**6,751**	6,921
Environmental response costs	**41,266**	40,339
Regulatory liabilities included in other reserves and deferred credits:		
Deferred FAS No. 109	**(2,926)**	(1,178)
Revaluation - Pensions and OPEB	**(60,486)**	(62,657)
Environmental response costs	**(56,437)**	(53,540)
Storm fund reserve	**(13,424)**	(10,179)
Cost of removal	**(117,245)**	(108,853)
Other	**(1,027)**	(4,808)
Total net regulatory liabilities long term	**(203,528)**	(193,955)
Net regulatory liabilities	**$ (108,281)**	$ (151,936)

Massachusetts Electric Company

Notes to Financial Statements

Note C - Commitments and Contingencies

1. Plant Expenditures:
The Company's utility plant expenditures are estimated to be approximately $140 million in 2005. At March 31, 2004, substantial commitments had been made relative to future planned expenditures.

2. Hazardous Waste:
The Federal Comprehensive Environmental Response, Compensation and Liability Act, more commonly known as the "Superfund" law, imposes strict, joint and several liability, regardless of fault, for remediation of property contaminated with hazardous substances. A number of states, including Massachusetts, have enacted similar laws.

The electric utility industry typically utilizes and/or generates in its operations a range of potentially hazardous products and by-products. The Company currently has in place an internal environmental audit program and an external waste disposal vendor audit and qualification program intended to enhance compliance with existing federal, state, and local requirements regarding the handling of potentially hazardous products and by-products.

The Company has been named as a potentially responsible party (PRP) by either the United States Environmental Protection Agency or the Massachusetts Department of Environmental Protection for a number of sites at which hazardous waste is alleged to have been disposed. Private parties have also contacted or initiated legal proceedings against the Company regarding hazardous waste cleanup. The most prevalent types of hazardous waste sites with which the Company has been associated are manufactured gas locations. The Company is aware of a number of such manufactured gas locations in Massachusetts, including some for which the Company has been identified as a PRP. The Company is engaged in various phases of investigation and remediation work at a number of the manufactured gas locations. The Company is currently aware of other possible hazardous waste sites, and may in the future become aware of additional sites, that it may be held responsible for remediating.

In 1993, the MDTE approved a settlement agreement that provides for rate recovery of remediation costs of former manufactured gas sites and certain other hazardous waste sites located in Massachusetts. Under that agreement, qualified costs related to these sites are paid out of a special fund established on the Company's books. Rate-recoverable contributions of approximately $5 million are added annually to the fund along with interest, lease payments, and any recoveries from insurance carriers and other third parties. At March 31, 2004 and 2003, the fund had a balance of approximately $56 million and $53 million, respectively.

Predicting the potential costs to investigate and remediate hazardous waste sites continues to be difficult. There are also significant uncertainties as to the portion, if any, of the investigation and remediation costs of any particular hazardous waste site that may ultimately be borne by the Company. The Company has recovered amounts from certain insurers, and, where appropriate, the Company intends to seek recovery from other insurers and from other PRPs, but it is uncertain whether, and to what extent, such efforts will be successful. At March 31, 2004 and 2003, the Company had total reserves for environmental response costs of approximately $52 million and $51 million, respectively, which includes reserves established in connection with the Company's hazardous waste fund referred to above. The Company believes that hazardous waste liabilities for all sites of which it is aware, and which are not covered by a rate agreement, are not material to its financial position.

Massachusetts Electric Company

Notes to Financial Statements

Note D - Employee Benefits

1. Pension and Other Postretirement Benefits

Summary. The Company has a non-contributory defined benefit pension plan covering substantially all employees. The pension is a noncontributory, tax-qualified defined benefit plan which provides all employees of National Grid and its subsidiaries with a minimum retirement benefit. Under the pension plan a participant's retirement benefit is computed using formulas based on percentages of highest average compensation computed over five consecutive years. The compensation covered by the pension plan includes salary, bonus and incentive share awards. Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives.

The Company provides health care and life insurance coverage to eligible retired employees. Eligibility is based on certain age and length of service requirements and in some cases retirees must contribute to the cost of their coverage.

Funding Policy. Absent unusual circumstances, the Company's funding policy is to contribute each year the maximum tax-deductible amount for that year. However, the contribution for any year will not be less than the minimum contribution required by federal law or greater than the maximum tax-deductible amount.

Investment Strategy. The Company manages its pension and postretirement benefit plans' investments to minimize the long-term cost of operating the plan, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes plan liabilities and plan funded status and results in the determination of the allocation of assets across equity and fixed income. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across the various fixed income market segments. Small investments are also held in private equity, real estate and timber, with the objective of enhancing long-term returns while improving portfolio diversification. Investment risk and return is reviewed by an investment committee on a quarterly basis.

The target asset allocation for the pension plan is:

Year ended March 31,	**2004**	2003
U.S. Equities	**42%**	50%
Global Equities (including U.S.)	**7%**	-
Non-U.S. Equities	**11%**	15%
Fixed Income	**35%**	35%
Private Equity and Property	**5%**	-
Total	**100%**	100%

The target asset allocation for the postretirement benefit plan is:

Year ended March 31,	**2004**	2003
U.S. Equities	**45%**	45%
Non-U.S. Equities	**15%**	15%
Fixed Income	**40%**	40%
Total	**100%**	100%

Expected Rate of Return on Assets. The estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of our long-term assumption. A small premium is added for active management of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with our target asset allocation, and the resulting long-term return on asset rate is then applied to the market-related value of assets.

The benefit plans' costs used the following assumptions:

Pension Benefits

For the year ended March 31,	**2004**	2003
Weighted average assumptions used to determine net periodic cost:		
Discount rate	**6.25%**	7.50%
Rate of compensation increase		
Union	**4.00%**	4.00%
Non-Union	**5.25%**	5.25%
Expected return on plan assets	**8.50%**	8.75%

Other Postretirement Benefits

For the year ended March 31,	**2004**	2003
Weighted average assumptions used to determine net periodic cost:		
Discount rate	**6.25%**	7.50%
Expected return on plan assets		
Union	**8.75%**	9.00%
Non-Union	**7.25%**	7.50%
Medical trend		
Initial	**10.00%**	10.00%
Ultimate	**5.00%**	5.00%
Year ultimate rate reached	**2008**	2007

The Company's pension cost for the years ended March 31, 2004 and 2003 included the following components:

(In thousands)	Year Ended March 31, 2004	2003
Service cost – benefits earned during the period	**$ 7,571**	$ 5,552
Plus (less):		
Interest cost on projected benefit obligation	**24,779**	24,482
Return on plan assets at expected long-term rate	**(30,678)**	(34,746)
Amortization of prior service cost	**573**	584
Amortization of net loss	**8,841**	3
Curtailment loss	**417**	-
Net pension cost (income)	**$ 11,503**	$ (4,125)
Special termination benefits	**$ 31,037**	$ -

The Company's total cost of postretirement benefits other than pensions (PBOPs) for the years ended March 31, 2004 and 2003 included the following components:

(In thousands)	Year Ended March 31, 2004	2003
Service cost - benefits earned during the period	**$ 3,857**	$ 2,959
Plus (less):		
Interest cost on projected benefit obligation	**16,249**	15,426
Return on plan assets at expected long-term rate	**(10,696)**	(10,757)
Amortization of prior service cost	**(339)**	(58)
Amortization of net loss	**5,308**	1,663
Curtailment loss	**5,974**	-
Postretirement benefit cost	**$ 20,353**	$ 9,233
Special termination benefits	**$ 3,706**	$ -

The funded status of the pension plan cannot be presented separately for the Company as the Company participates in the plan with certain other National Grid subsidiaries.

The following table provides the changes in the National Grid companies' pension plan's fair value of assets for the fiscal years ended March 31, 2004 and 2003, and the percentage distribution of the fair market value of the types of assets held in the pension plan's trust. The expected contribution to the National Grid companies' pension plan during fiscal 2005 is approximately $50 million.

(In millions)	Year Ended March 31, 2004	2003
Reconciliation of change in plan assets:		
Fair value of plan assets at beginning of period	**$ 869**	$ 1,053
Actual return (loss) on plan assets during year	**256**	(110)
Company contributions	**75**	8
Benefits paid from plan assets	**(98)**	(82)
Fair value of plan assets at end of period	**$ 1,102**	$ 869

Massachusetts Electric Company

Notes to Financial Statements

	2004	2003
Distribution of plan assets:		
Debt securities	**34%**	39%
Equity securities	**63%**	58%
Property/real estate	**1%**	1%
Other	**2%**	2%
	100%	100%

The following table provides the changes in the Company's portion of the National Grid companies' postretirement plan's fair value of assets for the fiscal years ended March 31, 2004 and 2003, and the percentage distribution of the fair market value of the types of assets held in the postretirement plan's trust. The Company's expected contribution to the postretirement plan during fiscal 2005 is approximately $15 million.

(In millions)	2004	2003
Reconciliation of change in plan assets:		
Fair value of plan assets at beginning of period	**$ 101**	$ 112
Actual return on plan assets during year	**27**	(12)
Company contributions	**14**	11
Benefits paid from plan assets	**(12)**	(10)
Fair value of plan assets at end of period	**$ 130**	$ 101

Year ended March 31,	2004	2003
Distribution of plan assets:		
Debt securities	**38%**	**55%**
Equity securities	**61%**	**44%**
Other	**1%**	**1%**
	100%	**100%**

Massachusetts Electric Company

Notes to Financial Statements

The following table provides a reconciliation of the changes in the National Grid companies' pension plan's benefit obligations, the accumulated benefit obligation and the assumptions used in developing those obligations for the National Grid companies' pension plan at March 31:

(In millions)	Year Ended March 31, 2004	2003
Accumulated benefit obligation	**$ 1,249**	$ 1,125
Change in benefit obligation:		
Benefit obligation at beginning of period	**$ 1,258**	$ 1,074
Service cost	**20**	15
Interest cost	**78**	78
Actuarial loss	**93**	173
Benefits paid	**(98)**	(82)
Curtailments	**(4)**	-
Special termination benefits	**78**	-
Benefit obligation at end of period	**$ 1,425**	$ 1,258
Reconciliation of prepaid cost		
Fair value of plan assets at end of period	**$ 1,102**	$ 869
Funded status	**$ (323)**	$ (389)
Unrecognized actuarial loss	**543**	646
Unrecognized prior service cost	**14**	17
Net amount recognized	**$ 234**	$ 274
Amounts recognized on the balance sheet consist of:		
Accrued benefit liability	**$ (148)**	$ (255)
Intangible asset	**16**	18
Regulatory assets	**62**	92
Accumulated other comprehensive income	**304**	419
Net amount recognized	**$ 234**	$ 274

Year ended March 31	2004	2003
Assumptions used to determine pension benefit obligation:		
Discount rate	**5.75%**	6.25%
Average rate of increase in future compensation level		
Union	**4.00%**	4.00%
Non-Union	**5.25%**	5.25%
Expected long-term rate of return on assets	**8.50%**	8.50%

The following provides a reconciliation of the Company's postretirement benefit obligations and plan assets at March 31:

(In millions)	**2004**	2003
Change in benefit obligation:		
Benefit obligation at beginning of period	**$ 266**	$ 205
Service cost	**4**	3
Interest cost	**16**	15
Actuarial loss	**30**	53
Benefits paid	**(12)**	(10)
Special termination benefits	**4**	-
Curtailment loss	**6**	-
Plan amendments	**(4)**	-
Benefit obligation at end of period	**$ 310**	$ 266
Reconciliation of accrued cost:		
Fair value of plan assets at end of period	**$ 130**	$ 101
Funded status	**(180)**	(165)
Unrecognized actuarial	**139**	131
Unrecognized prior service benefit	**(4)**	-
Unrecognized transition asset	**-**	(1)
Net amount accrued	**$ (45)**	$ (35)

Year ended March 31,	**2004**	2003
Weighted average assumptions to determine postretirement benefit obligation:		
Discount rate	**5.75%**	6.25%
Expected long-term rate of return on assets		
Union	**9.50%**	8.75%
Non-Union	**5.75%**	7.25%
Medical Trend		
Initial	**10.00%**	10.00%
Ultimate	**5.00%**	5.00%
Year ultimate reached	**2009**	2008

The assumptions used in the health care cost trends have a significant effect on the amounts reported. A one percentage point change in the assumed rates would increase the accumulated postretirement benefit obligation (APBO) as of March 31, 2004 by approximately $41.6 million or decrease the APBO by approximately $36.6 million, and increase or decrease the net postretirement cost for 2004 by approximately $3 million.

2. Additional Minimum Liability (AML): SFAS No. 87 "Employers' Accounting for Pensions" states that if a pension plans' ABO exceeds the fair value of plan assets, the employer shall recognize in the statement of financial position a liability that is at least equal to the unfunded ABO with an offsetting charge to other comprehensive income. Due to the severe downturn in the capital markets the Company's ABO at March 31, 2004 and 2003 is greater than the fair value of plan assets. If in the future, capital markets recover such that the fair value of plan assets is once again greater than the ABO, the additional minimum pension liability will be removed from the Company's balance sheets. As such, at March 31, 2004 and 2003, the Company has recognized an additional minimum pension liability of $132 million and $181 million, respectively, on its balance sheet reflecting the under funded pension obligation. (See Note K)

The Company has also recognized an allocated share of additional minimum pension liability of its affiliated service company of $48 million at years ended March 31, 2004 and 2003 which is recorded in accounts payable on the balance sheet with an offsetting charge to other comprehensive income.

3. Voluntary Early Retirement:
In January 2002, the Company offered a voluntary early retirement program to non-union employees who met certain eligibility requirements. Eligible employees were in targeted functions and will be age 55 with at least ten years of pension service by March 31, 2004. The program is intended to reduce the National Grid USA workforce through voluntary means.

In fiscal year 2003, National Grid companies made voluntary early retirement offers (VEROs). The VEROs were made to eligible both union and non-union employees with a total of 717 employees accepting the VERO offerings. The majority of them will retire by November 1, 2004, with the remainder retiring no later than January 1, 2008.

The Company's total VERO expense for union and non-union employees in fiscal year 2004 was approximately $61.1 million which is included in "Other operation" in the accompanying Statement of Income.

Note E - Income Taxes

The Company and other subsidiaries participate with National Grid General Partnership, a wholly owned subsidiary of National Grid Transco plc, in filing consolidated federal income tax returns. The Company's income tax provision is calculated on a separate return basis. Federal income tax returns have been examined and reported on by the Internal Revenue Service through 1996.

Total income taxes in the statements of income are as follows:

Year ended March 31,(In thousands)	**2004**	2003
Income taxes charged to operations	**$ 23,942**	$ 52,873
Income taxes credited to "Other income"	**(424)**	(1,119)
Total income taxes	**$ 23,518**	$ 51,754

Total income taxes, as shown above, consist of the following components:

Year ended March 31,(In thousands)	**2004**	2003
Current income taxes	**$ 599**	$ 42,799
Deferred income taxes	**24,203**	10,254
Investment tax credits, net	**(1,284)**	(1,299)
Total income taxes	**$ 23,518**	$ 51,754

Investment tax credits have been deferred and are being amortized over the estimated lives of the property giving rise to the credits.
Total income taxes, as shown above, consist of federal and state components as follows:

Year ended March 31,(In thousands)	**2004**	2003
Federal income taxes	**$ 18,876**	$ 41,476
State income taxes	**4,642**	10,278
Total income taxes	**$ 23,518**	$ 51,754

Consistent with rate-making policies of the MDTE, the Company has adopted comprehensive inter-period tax allocation (normalization) for temporary book/tax differences.

Total income taxes differ from the amounts computed by applying the federal statutory tax rates to income before taxes. The reasons for the differences are as follows:

Year Ended March 31, (In thousands)	**2004**	2003
Computed tax at statutory rate	**$ 20,397**	$ 45,371
Increases (reductions) in tax resulting from:		
Amortization of investment tax credits	**(1,284)**	(1,299)
State income tax, net of federal income tax benefit	**3,017**	6,681
Excess deferred tax adjustment	**-**	748
All other differences	**1,388**	253
Total income taxes	**$ 23,518**	$ 51,754

The Company applies the provisions of SFAS No. 109, “Accounting for Income Taxes”, which requires recognition of deferred income taxes for temporary differences that are reported in different years for financial reporting and tax purposes using the liability method. Under the liability method, deferred tax liabilities or assets are computed using the tax rates that will be in effect when temporary differences reverse. Generally, for regulated companies, the change in tax rates may not be immediately recognized in operating results because of rate-making treatment and provisions in the Tax Reform Act of 1986.

The following table identifies the major components of total deferred income taxes:

At March 31, (In millions)	**2004**	2003
Deferred tax asset:		
Plant related	**$ 30**	$ 25
Investment tax credits	**4**	5
All other	**90**	118
Total deferred tax asset:	**124**	148
Deferred tax liability:		
Plant related	**(302)**	(284)
Total deferred tax liability:	**(302)**	(284)
Net deferred tax liability	**$ (178)**	$ (136)

There were no valuation allowances for deferred tax assets deemed necessary at March 31, 2004 and March 31, 2003, respectively.

Massachusetts Electric Company

Notes to Financial Statements

Note F - Short-term Borrowings and Other Accrued Expenses

At March 31, 2004 and 2003, the Company had approximately $221 million and $133 million, respectively, of short-term debt outstanding to affiliates. The Company has regulatory approval from the Securities and Exchange Commission, under the Public Utility Holding Company Act of 1935 (1935 Act), to issue up to $275 million of short-term debt. National Grid and certain subsidiaries, including the Company, with regulatory approval, operate a money pool to more effectively utilize cash resources and to reduce outside short-term borrowings. Short-term borrowing needs are met first by available funds of the money pool participants. Borrowing companies pay interest at a rate designed to approximate the cost of outside short-term borrowings. Companies that invest in the pool share the interest earned on a basis proportionate to their average monthly investment in the money pool. Funds may be withdrawn from or repaid to the pool at any time without prior notice.

The components of other accrued expenses are as follows:

At March 31, (In thousands)	**2004**	2003
Rate adjustment mechanisms	**$ 10,201**	$ 19,625
Accrued wages and benefits	**18,442**	15,141
Other	**6,251**	3,272
Total other accrued expenses	**$ 34,894**	$ 38,038

Note G - Cumulative Preferred Stock

A summary of cumulative preferred stock at March 31, 2004 and 2003 is as follows (in thousands except for share data):

	Shares Outstanding		Amount		Dividends Declared		Call Price
	2004	2003	**2004**	2003	**2004**	2003	
$100 par value-							
4.440% Series	**22,585**	22,585	**$2,259**	$ 2,259	$100	$100	$104.068
4.760% Series	**24,680**	25,130	**2,468**	2,468	117	120	103.730
6.990% Series	**-**	54,000	**-**	5,400	95	377	(a)
Total	**47,265**	101,715	**$4,727**	$10,127	$312	$597	

(a) Called on August 1, 2003 at $103.50.

The annual dividend requirement for cumulative preferred stock was approximately $312,000 and $597,000 for the years ended March 31, 2004 and 2003, respectively.

Massachusetts Electric Company

Notes to Financial Statements

Note H - Long-term Debt

A summary of long-term debt is as follows:

At March 31 (In thousands)

Series	Rate %	Maturity	**2004**	2003
First Mortgage Bonds:				
T(93-5)	6.400	June 24, 2003		$ 10,000
U(93-1)	6.240	November 17, 2003		5,000
U(94-6)	8.520	November 30, 2004	**$ 10,000**	10,000
U(95-1)	8.450	January 10, 2005	**10,000**	10,000
U(95-2)	8.220	January 24, 2005	**10,000**	10,000
U(95-7)	7.920	March 3, 2005	**9,000**	9,000
V(95-1)	6.720	June 23, 2005	**10,000**	10,000
V(96-1)	6.780	November 20, 2006	**20,000**	20,000
T(93-7)	6.660	June 23, 2008	**5,000**	5,000
T(93-8)	6.660	June 30, 2008	**5,000**	5,000
T(93-10)	6.110	September 8, 2008	**10,000**	10,000
T(93-11)	6.375	November 17, 2008	**10,000**	10,000
V(98-3)	5.720	November 24, 2008	**25,000**	25,000
T(93-6)	7.500	June 23, 2023	**-**	3,000
T(93-9)	7.500	June 29, 2023	**-**	7,000
U(93-2)	7.200	November 15, 2023	**-**	10,000
U(93-3)	7.150	November 24, 2023	**-**	1,000
U(94-1)	7.050	February 2, 2024	**-**	10,000
U(94-2)	8.080	May 2, 2024	**5,000**	5,000
U(94-3)	8.030	June 14, 2024	**5,000**	5,000
U(94-4)	8.160	August 9, 2024	**5,000**	5,000
U(94-5)	8.850	November 7, 2024	**1,000**	1,000
U(95-6)	8.460	February 28, 2025	**3,000**	3,000
V(95-2)	7.630	June 27, 2025	**10,000**	10,000
V(95-3)	7.600	September 12, 2025	**10,000**	10,000
V(95-4)	7.630	September 12, 2025	**10,000**	10,000
V(97-1)	7.390	October 1, 2027	**15,000**	15,000
V(98-1)	6.910	January 12, 2028	**20,000**	20,000
V(98-2)	6.940	January 12, 2028	**5,000**	5,000
Pollution Control Revenue Bonds:				
1993	5.875	August 1, 2008	**40,000**	40,000
Unamortized discounts			**(791)**	(940)
Total long-term debt			**$252,209**	$298,060
Long-term debt due within one year			**39,000**	15,000
Total long-term debt, excluding current portion			**$213,209**	$ 283,060

Substantially all of the properties and franchises of the Company are subject to the lien of mortgage indentures under which the first mortgage bonds have been issued.

The Company is scheduled to make cash payments of approximately $39 million in fiscal year 2005, approximately $10 million in fiscal year 2006, approximately $20 million in fiscal year 2007, $0 in fiscal year 2008, $95 million in fiscal year 2009, and $89 million thereafter, to retire maturing bonds.

At March 31, 2004 and 2003, the Company’s long-term debt had a carrying value of $253 million and $298 million and had a fair value of approximately $277 million and $325 million, respectively. The fair market value of the Company's long-term debt was estimated based on the quoted prices for similar issues or on the current rates offered to the Company for debt of the same remaining maturity.

Note I - Restrictions on Retained Earnings Available for Dividends on Common Stock

As long as any preferred stock is outstanding, certain restrictions on payment of dividends on common stock would come into effect if the "junior stock equity" as defined by the preferred stock agreement was, or by reason of payment of such dividends became, less than 25 percent of "Total capitalization". However, the junior stock equity at March 31, 2004 was 87 percent of total capitalization and, accordingly, none of the Company's retained earnings at March 31, 2004 were restricted as to dividends on common stock under the foregoing provisions.

Note J - Supplementary Income Statement Information

Advertising expenses, expenditures for research and development, and rents were not material and there were no royalties paid in 2004 or 2003. Taxes, other than income taxes, charged to operating expenses are set forth by class as follows:

Year ended March 31,(In thousands)	**2004**	2003
Municipal property taxes	**$ 28,107**	$ 28,997
Federal and state payroll and other taxes	**9,976**	10,092
Total taxes, other than income taxes	**$ 38,083**	$ 39,089

National Grid USA Service Company, Inc., an affiliated service company operating pursuant to the provisions of Section 13 of the 1935 Act, furnished services to the Company at the cost of such services. These costs amounted to $165.4 million and $123.4 million, including capitalized construction costs of $18.7 million and $12.9 million, for the years ended March 31, 2004 and 2003, respectively.

Note K – Accumulated Other Comprehensive Income (Loss)

(In Thousands)	Unrealized Gain (Loss) on Available-for-Sale Securities	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive (Loss)
March 31, 2002	$ 42	$ -	$ 42
Other comprehensive income (loss):			
Unrealized gains (losses) on securities, net of taxes	(98)	-	(98)
Change in minimum pension liability, net of taxes	-	(152,728)	(152,728)
March 31, 2003	$ (56)	$ (152,728)	$ (152,784)
Other comprehensive income (loss):			
Unrealized gains (losses) on securities, net of taxes	243	-	243
Change in minimum pension liability, net of taxes	-	28,876	28,876
March 31, 2004	$ 187	$ (123,852)	$ (123,665)

DTE 1-12

Request:

Refer to Exhibit RGS-3. Please explain the basis for the selection of a 6.0 percent rate of return for the net present value analysis provided herein.

Response:

The Company selected 6.0% as the discount rate for its present value analysis of savings for the proposed transaction as a "matched fund" rate, the estimate of what the existing bonds could be refunded at for their remaining life.

Prepared by or under the supervision of: Robert G. Seega

DTE 1-13

Request:

Refer to Exhibit RGS-3. Please provide a similar exhibit substituting the 6.0 percent rate of return with an 8.0 percent rate of return.

Response:

Please see attached.

Prepared by or under the supervision of: Robert G. Seega

Massachusetts Electric Company
Refinancing 1993 Series MIFA Issue, Pollution Control Revenue Refunding Bonds
$40,000,000

	Expenses Under Existing Issue				Expenses with a New Issue				
Year Ended August 1 (3)	Interest 5.875%	Interest After-Tax (4)	Fees	Total	Interest (1) BMA 3.50%	Interest (1) After-Tax 3.27%	Fees(2)	Total	Annual Savings
2005	2,350,000	2,197,250	0	2,197,250	1,400,000	1,309,000	847,204	2,156,204	41,047
2006	2,350,000	2,197,250	0	2,197,250	1,400,000	1,309,000	87,516	1,396,516	800,734
2007	2,350,000	2,197,250	0	2,197,250	1,400,000	1,309,000	87,516	1,396,516	800,734
2008	2,350,000	2,197,250	0	2,197,250	1,400,000	1,309,000	87,516	1,396,516	800,734
2009	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2010	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2011	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2012	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2013	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2014	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2015	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2016	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2017	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2018	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2019	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2020	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
Total				$17,168,096				$14,724,848	$2,443,249
NPV @	8.00%			$11,145,391				$9,196,673	$1,948,718

(1) Interest rate for new tax exempt issue assumed to be 3.5% 10-year average BMA level.

(2) Estimated upfront expenses:

Redemption premium	400,000		
Underwriters' fees	140,000		
MDFA fee	200,000	@	0.50% of principal
Attorney fees	150,000		
Upfront Insurance	300,000	@	0.75% of principal
Rating Agencies	25,000		
Trustee fees	25,000		
Printing	10,000		
Estimated Upfront Exp.	1,250,000		
Ongoing auction fee	104,000	@	0.26% of principal
Ongoing annual insurance	40,000	@	0.10% of principal
	1,394,000		

(3) Maturity extension; only Unit No. 6 apportionment eligible for extension

as of 1997	15 -20 years remaining life	2012		2017
	years from closing	8		13
	times 120%	9.6		15.6
	final maturity	2014	-	2020

(4) Applicable MA state tax for interest: 6.50%
Applicable MA state tax for fees: 39.225%

DTE 1-14

Request:

Refer to Exhibit MEC-1, at 10. Please explain the basis on which the Company has determined that a 75 basis point spread over similar maturity U.S. treasuries would provide sufficient flexibility to refinance the new MDFA bonds, assuming such bonds remain tax-exempt during their term.

Response:

Since the Company has requested authority to extend the maturity on some portion of the existing bonds up to 20 years, and since the Company intends to set interest rates in a variable mode, we wanted to provide the Department with a benchmark on which rates could be monitored in the future and provide the Company with a reasonable spread which would take into account market fluctuations over time.

Prepared by or under the supervision of: Robert G. Seega

DTE 1-15

Request:

Refer to Exhibit MEC-1, at 10. Please explain the basis on which the Company has determined that a 300 basis point spread over similar maturity U.S. treasuries would provide sufficient flexibility to refinance the new MDFA bonds, assuming such bonds were to become taxable securities during their term.

Response:

As we provided in the response to DTE 1-14, the Company is seeking to extend the maturity on some of the existing bonds and is requesting that the Department approve a process by which rates could be determined in the future which would provide the Department with a benchmark and the Company with a spread to accommodate market fluctuations.

Prepared by or under the supervision of: Robert G. Seega